

TAXATION

DATE 3-14-07

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SENATE STANDING COMMITTEE REPORT

March 14, 2007

Page 1 of 1

Mr. President:

We, your committee on **Taxation** recommend that **House Bill 75** (third reading copy -- blue) be concurred in.

Signed: _____

A handwritten signature in cursive script, appearing to read "J. Elliott", written over a horizontal line.

Senator Jim Elliott, Chair

To be carried by Senator Keith Bales

- END -

Committee Vote:

Yes 9, No 0

Fiscal Note Required _____

Handwritten initials "KF" in a stylized, cursive script.

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SENATE STANDING COMMITTEE REPORT

March 14, 2007

Page 1 of 1

Mr. President:

We, your committee on **Taxation** recommend that **House Bill 623** (third reading copy -- blue) be concurred in.

Signed: _____


Senator Jim Elliott, Chair

To be carried by Senator Kelly Gebhardt

- END -

Committee Vote:

Yes 9, No 0

Fiscal Note Required _____




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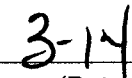
COMMITTEE FILE COPY

TABLED BILL

The **SENATE TAXATION COMMITTEE** TABLED HB 748, by motion, on **Wednesday, March 14, 2007.**


(For the Committee)


(Secretary of the Senate)

_____, 
(Time) (Date)

March 14, 2007

Lois A. O'Connor, Secretary

Phone: 444-4772

COMMITTEE FILE COPY

TABLED BILL

The **SENATE TAXATION COMMITTEE** TABLED **SB 472**, by motion, on **Wednesday, March 14, 2007**.

Lois O'Connor
(For the Committee)

KJ
(Secretary of the Senate)

 , *3-14*
(Time) (Date)

March 14, 2007

Lois A. O'Connor, Secretary

Phone: 444-4772

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill # HB0748

Title: Directing Department of Revenue to revise energy tax credit rules

Primary Sponsor: Sonju, Jon

Status: As Introduced

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☒ Technical Concerns
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$120,281	\$109,177	\$111,906	\$114,704
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$120,281)</u>	<u>(\$109,177)</u>	<u>(\$111,906)</u>	<u>(\$114,704)</u>

Description of Fiscal Impact: This legislation would require the Department of Revenue to review all returns claiming the energy conservation credit within the same year, which would require 2.00 FTE. In addition, the Department of Revenue would need to revise the administrative rules governing this credit.

FISCAL ANALYSIS

Assumptions:

1. This legislation would require the Department of Revenue to revise the administrative rules for the energy conservation credit in consultation with the Department of Environmental Quality. In February 2006, the Department of Revenue revised the administrative rules for this credit after extensive coordination with the Department of Environmental Quality. The cost of this update is anticipated to be minimal and can be absorbed within existing resources.
2. This legislation also requires the Department of Revenue to review all tax returns claiming the energy conservation credit within the year in which the credit is claimed. 2.00 FTE tax examiners would be necessary to perform the reviews.
3. This legislation also requires that the Department of Revenue develop procedures to waive the penalties and interest due if the energy conservation credit is disallowed in a year after the year in which the return was

filed. This provision is assumed to have no fiscal impact because the Department of Revenue already has authority to waive penalties and some interest.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	2.00	2.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services	\$97,285	\$97,285	\$99,717	\$102,210
Operating Expenses	\$10,996	\$11,892	\$12,189	\$12,494
Equipment	\$11,800	\$0	\$0	\$0
TOTAL Expenditures	<u>\$120,081</u>	<u>\$109,177</u>	<u>\$111,906</u>	<u>\$114,704</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$120,081	\$109,177	\$111,906	\$114,704
TOTAL Funding of Exp.	<u>\$120,081</u>	<u>\$109,177</u>	<u>\$111,906</u>	<u>\$114,704</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$120,081)	(\$109,177)	(\$111,906)	(\$114,704)

Technical Notes:

1. It is not clear what constitutes denying or allowing the credit within the same year. For example, would the Department of Revenue be required to deny one year from the time the tax return is received, or would the credits claimed for the 2007 tax year need to be reviewed by the start of 2009?
2. The proposed legislation states that the Department of Revenue only allows the credit for the items included in the administrative rule. In fact, the administrative rule indicates that the list is not inclusive. If the investment is not on the list, the taxpayer must demonstrate that the investment satisfies the criteria contained in Title 15, Chapter 32, Part 1.
3. This legislation would allow a specific exemption for waiving penalties and interests for a specific group of taxpayers only. This may be unconstitutional, as it provides preferential treatment for specific taxpayers.

 Sponsor's Initials

 Date

 Budget Director's Initials

 Date



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0472	Title:	Increase tax credit for disability insurance to small business employees
Primary Sponsor:	Gillan, Kim	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Revenue:				
General Fund	(\$3,857,238)	(\$7,767,491)	(\$7,873,866)	(\$4,124,390)
Net Impact-General Fund Balance	<u>(\$3,857,238)</u>	<u>(\$7,767,491)</u>	<u>(\$7,873,866)</u>	<u>(\$4,124,390)</u>

Description of fiscal impact: This legislation expands the health insurance for uninsured Montanans tax credit by increasing the maximum monthly credit from \$25 to \$100.

FISCAL ANALYSIS

Assumptions:


1. This legislation would increase the maximum monthly credit amount for the health insurance for uninsured Montanans credit from \$25 to \$100. Employers may receive the full \$100 credit if they pay 100% of the employee's premium; if the employer pays less than 100% of the premium, the credit is equal to \$100 times the percentage of the premiums paid by the employer.
2. In tax year 2005, 673 households claimed the disability credit. Many of these households are likely to be claiming a distributed share of the credit from their S-corporation or other small business corporation. Because multiple households could claim distributed shares of this credit from a single business and one household could claim distributed share from multiple businesses, there is no way of knowing the number of businesses represented by these households. This fiscal note assumes that each household represents one business. During fiscal year 2006, 92 businesses claimed the credit. Based on these numbers, this fiscal note assumes that 765 businesses claimed the credit during tax year 2005.

3. The legislation limits the credit to small employers who employ 20 or fewer employees. The Bureau of Labor Statistics reports that in 2005 there were 33,867 private establishments in Montana with fewer than twenty employees, with a total of 79,881 employees in firms of less than 10 employees and 54,558 employees in firms of 10 to 19 employees. This fiscal note assumes that all of these employees work more than 20 hours and are eligible for the credit or would be if their employer chose to pay for health insurance. However, this credit can only be claimed on 10 or fewer employees. Therefore, half of the employees in firms of 10 to 19 employees could not be used to claim the credit. Based on the Bureau of Labor Statistics data, the credit could be claimed on 107,160 employees $(79,881 + (54,558/2))$.
4. Under current law, the participation rate for this credit is approximately 2.6% (765 businesses that claimed the credit / 33,867 Montana small employers). However, the increased tax benefits will encourage a greater number of businesses to claim the credit. This fiscal note assumes a 10% participation rate in the credit as altered by the proposed legislation. Therefore, 10,716 employees would be used to claim the credit $(10\% \times 107,160)$. Adjusting for population growth using the population growth estimates in HJR 2, the estimated number of employees used to claim the credit will be 11,132 in tax year 2007, 11,285 in tax year 2008, and 11,430 in tax year 2009. In tax year 2010, the number of eligible employees will drop to 464 because the employers who claimed the credit on 11,132 employees in tax year 2007 will no longer be eligible for the credit (the credit cannot be taken for more than 36 consecutive months).
5. This fiscal note assumes that the full \$100 can be claimed on each employee, for an increased benefit of \$75 per employee. This assumption is made because the average annual premium for employer-sponsored coverage was \$4,242 in 2005 (Kaiser Family Foundation), which is greater than the \$1,200 maximum credit. It is likely that employers can claim the full \$1,200 on each employee.
6. The proposed legislation increases the credit per employee by \$75, from \$25 to \$100. The estimated amount of additional credit claimed due to this bill is \$10,018,800 in tax year 2007 $(11,132 \times \$75)$, \$10,156,500 in tax year 2008 $(11,285 \times \$75)$, \$10,295,100 in tax year 2009 $(11,430 \times \$75)$, and \$417,600 in tax year 2010 $(464 \times \$75)$.
7. This credit is not refundable so it cannot exceed the taxpayer's tax liability. In 2005, 77% of the credit claimed was used to decrease tax liability. The estimated cost of the proposed legislation is therefore (\$7,714,476) in tax year 2007 $(\$10,018,800 \times 77\%)$, (\$7,820,505) in tax year 2008 $(\$10,156,500 \times 77\%)$, (\$7,927,227) in tax year 2009 $(\$10,295,100 \times 77\%)$, and (\$321,552) in tax year 2010 $(\$417,600 \times 77\%)$.
8. Credits will be claimed on tax returns filed after the end of each tax year. Taxpayers will claim half of the credits on returns filed in the spring and half on extension returns filed in the fall. General fund revenue will be reduced by \$3,857,238 in FY 2008 $(0.50 \times \$7,714,476)$, \$7,767,491 in FY 2009 $(0.5 \times \$7,714,476 + 0.5 \times \$7,820,505)$, \$7,873,866 in FY 2010 $(0.5 \times \$7,820,505 + 0.5 \times \$7,927,227)$, \$4,124,390 in FY 2010 $(0.5 \times \$7,927,227 + 0.5 \times \$321,552)$.
9. The Department of Revenue does not anticipate that there will be additional administrative costs associated with implementing this legislation.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	(\$3,857,238)	(\$7,767,491)	(\$7,873,866)	(\$4,124,390)
TOTAL Revenues	<u>(\$3,857,238)</u>	<u>(\$7,767,491)</u>	<u>(\$7,873,866)</u>	<u>(\$4,124,390)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,857,238)	(\$7,767,491)	(\$7,873,866)	(\$4,124,390)

Technical Notes:

1. Although originally targeted to disability insurance, the disability insurance credit can now be claimed on all types of health insurance. It is not possible for the Department of Revenue to distinguish disability insurance from other health insurance policies.



 Sponsor's Initials



 Date



 Budget Director's Initials



 Date